

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. \_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**PHILIP B. DIFANI, JR.**

**Submitted On Behalf**

**Of**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**AND**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY**

**d/b/a AmerenCIPS**

**December 15, 2000**

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**UNION ELECTRIC COMPANY d/b/a AMERENUE**

**AND**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AMERENCIPS**

**1. Q. Please state your name and business address.**

**A.** My name is Philip B. Difani, Jr. My business address is 1901 Chouteau Avenue,  
St. Louis, Missouri 63103.

**2. Q. By whom are you employed and in what capacity?**

**A.** I am employed by Ameren Services Company as an Engineer in the Rate  
Engineering Department of Corporate Planning. As part of my job, I provide rate  
engineering services to Central Illinois Public Service Company, which is now  
doing business as AmerenCIPS ("AmerenCIPS"), and to Union Electric  
Company, which is now doing business as AmerenUE ("AmerenUE").

22     **3.     Q.     Please summarize your education and business experience.**

23           **A.**     This information is summarized in Ameren Exhibit No. 9.1 attached to this  
24                   testimony.  
25

26     **4.     Q.     What are your responsibilities in this proceeding?**

27           **A.**     My responsibilities are as follows:

28               (1)     To develop fully allocated customer class cost of service studies for  
29                           AmerenCIPS' and AmerenUE's retail jurisdictional distribution system  
30                           operations for the test year of twelve months ending December 31, 1999.

31               (2)     To calculate class revenue requirements based on equal class rate of  
32                           returns.

33               (3)     To develop customer charges for all DS classes of service.  
34

35     **5.     Q.     What exhibits are you sponsoring?**

36           **A.**     I am sponsoring summaries of class cost of service studies for AmerenCIPS and  
37                   AmerenUE (Ameren Exhibit Nos. 9.2 and 9.3). I am also sponsoring exhibits  
38                   showing the derivation of the customer charges for each class for AmerenCIPS  
39                   and AmerenUE (Ameren Exhibit Nos. 9.4 and 9.5).  
40

41     **6.     Q.     Please describe Ameren Exhibit No. 9.2 and Ameren Exhibit No. 9.3.**

42           **A.**     Ameren Exhibit Nos. 9.2 and 9.3 contain the summary results of fully allocated  
43                   class cost of service studies for the Illinois jurisdictional distribution system  
44                   operations of AmerenCIPS and AmerenUE, respectively, for the 12 months

ending December 31, 1999. The jurisdictional studies sponsored by Ameren witness Weiss provided the investment and expense items that formed the starting point for these studies.

**7. Q. What categories of cost were examined in the development of the allocated class cost of service studies?**

**A.** A detailed analysis of all elements of investment and expenses associated with retail electric operations for each Company's distribution system was conducted for the purpose of allocating such items to the appropriate customer classes served by each Company. Expenses and investment in property and plant were primarily classified into their customer related and demand related components. The class revenue requirements are based on each respective class's rate of return being equal to the delivery services rate of return (approximately 9.746% for AmerenCIPS and 10.811% for AmerenUE).

**8. Q. With regard to these customer related and demand related cost categories, please describe the development of the actual allocation factor percentages.**

**A.** The allocation factor percentages for each customer class were determined by calculating the proportionate share of total customer related units of each class and demand related units of each class, including losses, at the indicated voltage levels on each Company's system associated with the facilities being allocated.

67     **9.     Q.     Having derived the various allocation factors for each class, what was the**  
68                   **next step in the studies?**

69           **A.**     The next step was to apply these allocation factors to the various components of  
70                   rate base and operating and maintenance expenses, as developed in total for the  
71                   Illinois retail jurisdictional operations by Mr. Weiss, and as further refined for the  
72                   distribution system in the testimony sponsored by Mr. Cooper.

73  
74                                   **Allocation of Rate Base Components**

75     **10.    Q.    Please describe how rate base components were allocated among classes.**

76           **A.**     The original cost and accumulated depreciation reserves of the components of  
77                   electric rate base for the test year were allocated to customer classes as described  
78                   below. The specific dollar amounts (in thousands) allocated to each class are  
79                   summarized in Ameren Exhibit Nos. 9.2 and 9.3.

80                   (1)     Distribution, Intangible and General Plant. These components and their  
81                   allocation factors are described in the direct testimony of Mr. Cooper.

82                   (2)     Materials & Supplies. This component consists of local materials related  
83                   to distribution facilities. The local distribution materials were allocated on  
84                   the basis of the composite allocation of gross Distribution Plant, as  
85                   previously described by Mr. Cooper in his testimony.

86                   (3)     Cash Working Capital. This item is related primarily to operating  
87                   expenses and was therefore allocated to each customer class in proportion  
88                   to the total operating expenses allocated to each class.

(4) Customer Advances for Construction and Deposits. This component of rate base was assigned to each customer class on a historical basis.

(5) Total Accumulated Deferred Income Taxes. This component is related primarily to investment in property, and was therefore allocated to each customer class on the basis of allocated total gross plant.

**Allocation of Expense Components**

**11. Q. How did you allocate the test year operating and maintenance expenses, as developed by Mr. Weiss, to the various customer classes?**

**A.** Mr. Cooper discusses the allocation of direct distribution O&M expenses in his testimony. Other delivery service expenses were allocated as follows:

(1) Customer Accounts Expenses. A review of Account 903, Customer Records & Collection Expenses, indicated that a minimum of 30 percent of such expenses are devoted to credit and collection activities. Therefore, this portion of Account 903 and all of Account 904, Uncollectible Accounts, were allocated to each customer class on the basis of the level of such activities for each class in the Company's offices. The remaining 70 percent of Account 903 was allocated to each customer class utilizing weighted billing administration allocation factors. AmerenUE has an installed base of Automated Meter Reading (AMR) in its service area and meter reading expense was allocated equally to all classes based on the number of meters in each class. AmerenCIPS retained the weighted meter reading cost structure used in the previous DS case in 1999. Account 901,

Supervision, was allocated to each class on the basis of the composite allocation of all other Customer Accounts Expenses.

(2) Customer Service Expense. This expense was allocated to each customer class using the composite allocation of Customer Accounts Expenses.

(3) Administrative & General Expenses. All remaining A&G expenses were allocated to the various customer classes on the basis of the class composite distribution of labor expense, as previously allocated. This allocation of A&G expenses reflects the same methodology as that utilized by Mr. Weiss in each Company's jurisdictional cost of service study.

**12. Q. How did you allocate the test year depreciation expenses?**

**A.** As depreciation expenses are functionalized and are directly related to each Company's original cost investment in plant, this expense was allocated to each customer class on the basis of the previously allocated original cost distribution and general plant.

**13. Q. How did you allocate the test year real estate and property taxes?**

**A.** Because such expenses are directly related to the original cost investment in plant, this expense was allocated to customer classes on the basis of the sum of the previously allocated total gross plant.

133     **14.   Q.    How did you allocate the test year income taxes?**

134           **A.**    This element of cost of service is directly related to each Company's rate of return  
135                   on its net original cost rate base. As such, income taxes were allocated to each  
136                   class on the basis of the net original cost rate base of each customer class.

137  
138     **15.   Q.    Please describe the methodology used in Ameren Exhibit Nos. 9.2 and 9.3 to**  
139                   **obtain a revenue requirement for each customer class, applying equal rates**  
140                   **of return for each class.**

141           **A.**    Each customer class's total net original cost rate base – Line 32 – of these  
142                   schedules was multiplied by the applicable Illinois retail jurisdictional return –  
143                   Line 34 – to obtain their respective total net operating income – Line 17. Such  
144                   net operating income was then added to operating expenses – Line 15 – to obtain  
145                   total operating revenue – Line 6 – by class applying equal rates of return.

146  
147     **16.   Q.    Please explain the treatment of Other Revenues associated with items such as**  
148                   **Late Payment Charges, NSF Check Charges and Reconnection Charges.**

149           **A.**    In order to arrive at the base rate revenue requirement for each class, the total  
150                   revenue requirement for each class was credited with its contribution to "Other  
151                   Revenues". The remainder of the revenue requirement was used to develop the  
152                   tariffed rates for each of the customer classes.



**17. Q. Please describe the adjustment made in your cost-of-service study to account for the wholesale facilities included in the AmerenCIPS jurisdictional cost of service study.**

A. Plant classified as distribution plant on AmerenCIPS' books serves both retail and wholesale customers, because some wholesale customers connect to the AmerenCIPS facilities at relatively low voltages. Accordingly, it is necessary to jurisdictionalize that plant, and related expenses, in order to assure that retail customers do not bear the burden of plant and expenses associated with the provision of service to wholesale customers. In the last case (Docket No. 99-0121), AmerenCIPS performed the jurisdictionalization based on an estimate of the relative use of the distribution system by wholesale customers. Subsequent to that proceeding, AmerenCIPS performed a detailed analysis of the use of the distribution system by each wholesale customer. AmerenCIPS proposed charges at FERC associated with such use. Thereafter, AmerenCIPS agreed to revise the proposed charges in response to comments from the FERC Staff and the affected customers. AmerenCIPS anticipates that FERC will approve the revised charges soon after the filing of this case. The jurisdictionalization in this filing is based on the charges emerging from the detailed study, as revised before FERC. AmerenCIPS believes the detailed study provides a more sound basis for jurisdictionalization than the general, estimated allocation used in the last proceeding.

176 **18. Q. Please describe the method of identification of “High Voltage” and**  
177 **“Primary” plant for allocation purposes.**

178 **A.** The AmerenCIPS system had previously recorded plant at the 34 and 69 kV  
179 voltage levels as Transmission Plant. This portion of plant was reclassified as  
180 Distribution Plant and is identified as such in Company records. Therefore, the  
181 cost of service study for AmerenCIPS is able to directly identify high voltage  
182 plant for allocation purposes. We then separated the remaining plant into  
183 customer, primary, and secondary components for allocation purposes.  
184 AmerenUE does not keep Company records on the high voltage distribution plant,  
185 since there was no need to reclassify such plant. Instead, a detailed analysis of the  
186 utilization of the various distribution accounts, by voltage level, was used to  
187 separate AmerenUE’s plant into high voltage, primary, secondary, and customer  
188 related components.

189  
190 **19. Q. Please describe the treatment of plant and expense for the Special Contract**  
191 **customer.**

192 **A.** The AmerenCIPS system also has a special contract customer (Marathon) that  
193 takes delivery at 138 kV. It is the only customer to do so. The revenue  
194 requirement for this customer is based upon direct allocation of very high voltage  
195 (138 kV) distribution plant, which is the only very high voltage distribution plant  
196 in the AmerenCIPS system.

198     **20.   Q.    Please explain Ameren Exhibit Nos. 9.4 and 9.5.**

199           **A.**    Ameren Exhibit Nos. 9.4 and 9.5 present studies for AmerenCIPS and  
200                   AmerenUE, respectively, indicating the allocation of customer related costs based  
201                   on the results of my class cost of service studies.

202

203     **21.   Q.    Does this conclude your direct testimony?**

204           **A.**    Yes, it does.

## QUALIFICATIONS OF PHILIP B. DIFANI JR.

My name is Philip B. Difani, Jr., and I reside in St. Louis County, Missouri. I am a licensed Professional Engineer in the State of Missouri.

My educational background consists of a Bachelor of Science Degree in Mechanical Engineering from Washington University in May, 1983 and a Master of Business Administration from Southern Illinois University in March, 1993.

I began my engineering career at Union Electric in the Nuclear Function as a Mechanical Engineer in May, 1983. I was responsible for various modifications to the Callaway Plant including preparing specifications, drawings, and other design related matters.

I transferred to the Rate Engineering Department in February, 1991 and I assumed my current position with Ameren Services Company upon completion of the merger of CIPSCO Inc. and Union Electric effective December 31, 1997. My duties and responsibilities include assignments related to the gas and electric rates of Union Electric, now doing business as AmerenUE, and Central Illinois Public Service Company, doing business as AmerenCIPS, including participation in regulatory proceedings, rate analyses, conducting property evaluation studies, the development and interpretation of gas and electric tariffs, including rules and regulations, and other rate or regulatory projects as assigned.

I have previously testified before the Missouri Public Service Commission and the Illinois Commerce Commission.

AMERENCIPS  
DELIVERY SERVICES COST OF SERVICE ALLOCATION STUDY  
YEAR: 12 MONTHS ENDED DECEMBER 31, 1999

[illegible]



LINE # ACCOUNT #		ITEM	ALLOCATION BASIS	TOTAL CIPS	DS-1 PLANT	DS-2 (Sec) PLANT	DS-2 (Pri) PLANT	DS-3 (Sec) PLANT	DS-3 (Pri) PLANT	DS-3 (HV) PLANT	LIGHTING PLANT	SP. Contract PLANT
1												
2		CUSTOMER CHARGE										
3												
4	364	POLES, TOWERS, FIXTURES		8,140	6,951	1,032	2	134	8	0	12	0
5	365	OVERHEAD CONDUCTOR		30,250	25,833	3,835	9	499	29	2	44	0
6	366	UNDERGROUND CONDUIT		69	59	9	0	1	0	0	0	0
7	367	UNDERGROUND CONDUCTORS		12,438	10,622	1,577	4	205	12	1	18	0
8	368	LINE TRANSFORMERS		40,840	34,974	5,191	0	675	0	0	0	0
9	369-1	OVERHEAD SERVICES		5,912	5,063	751	0	98	0	0	0	0
10	369-2	UNDERGROUND SERVICES		1,576	1,350	200	0	26	0	0	0	0
11	370	METERS		23,693	15,195	5,193	227	1,821	782	382	0	93
12												
13				122,919	100,046	17,788	242	3,459	830	385	75	93
14												
15		@ Fixed Charge Rate		32,629	26,557	4,722	64	918	220	102	20	25
16												
17												
18		Grand	CUSTOMER		DS-1	DS-2 (Sec)	DS-2 (Pri)	DS-3 (Sec)	DS-3 (Pri)	DS-3 (HV)	LIGHTING	SP. Contract
19		Total	TOTAL		LABOR OTHER	LABOR OTHER	LABOR OTHER	LABOR OTHER	LABOR OTHER	LABOR OTHER	LABOR OTHER	LABOR OTHER
20		EXPENSE										
21												
22	583.1/593	Overhead lines	3,956		1,793 1,587	266 236	1 0	35 31	2 2	0 0	3 2	0 0
23	583.2/584.2	Transformers	456		237 153	35 23	0 0	5 3	0 0	0 0	0 0	0 0
24	584.1/594	Underground lines	313		199 68	30 10	0 0	4 1	0 0	0 0	0 0	0 0
25	585/597	Meters	2,550		1,288 348	440 119	19 5	154 42	66 18	32 9	0 0	8 2
26	580/590	Supvr. & Eng.	1,114		669 138	173 31	6 1	51 8	20 3	10 1	0 0	2 0
27	581	Dispatch	531		353 18	99 4	4 0	31 1	13 0	6 0	0 0	1 0
28	588/598	Miscellaneous	2,865		449 1,627	126 399	5 12	40 113	16 42	8 20	0 1	2 5
29	589	Rents	38		0 27	0 7	0 0	0 2	0 1	0 0	0 0	0 0
30	901-905	Customer Accounts	11,128		4,530 2,796	618 331	1 1	1,774 899	110 53	7 3	3 2	1 0
31	907-916	Customer Service and Sales	3,564		558 1,846	76 219	0 0	218 593	13 35	1 2	0 1	0 0
32												
33		Sub-total	26,514		10,075 8,607	1,864 1,378	35 20	2,312 1,693	239 154	64 37	7 6	14 8
34												
35												
36	920-935	A & G, Payroll Taxes, and Return	17,620		12,162	2,250	43	2,791	289	77	8	17
37		Gen. & Int. Plant/(Dist.&Cust, A&G) Labor										
38												
39		Less "Customer-related Other Revenues"			-588	-144	-3	-49	-11	-6	0	0
40												
41		Customer Related Cost			56,813	10,069	159	7,704	892	275	41	64
42		(line 9, 26 & 29)										
43												
44		# Of Annual Bills		3,884,580	3,317,340	492,420						

AMERENUE  
DELIVERY SERVICES COST OF SERVICE ALLOCATION STUDY  
YEAR: 12 MONTHS ENDED DECEMBER 31, 1999

TITLE: RATE DESIGN

			TOTAL	DS-1		DS-2		DS-3		DS-4		
LINE #	ACCOUNT #	ITEM	ALLOCATION BASIS	UE	PLANT	PLANT	PLANT	PLANT	PLANT	PLANT	PLANT	
1												
2		CUSTOMER CHARGE										
3												
4	364	POLES, TOWERS, FIXTURES		204	180		23		1		0	
5	365	OVERHEAD CONDUCTOR		6,183	5,448		702		27		7	
6	366	UNDERGROUND CONDUIT		81	72		9		0		0	
7	367	UNDERGROUND CONDUCTORS		1,765	1,555		200		8		2	
8	368	LINE TRANSFORMERS		2,221	1,959		252		10		0	
9	369-1	OVERHEAD SERVICES		-89	-79		-10		0		0	
10	369-2	UNDERGROUND SERVICES		537	473		61		2		0	
11	370	METERS		<u>4,728</u>	<u>3,119</u>		<u>864</u>		<u>133</u>		<u>607</u>	
12												
13				15,630	12,727		2,102		181		616	
14												
15		@ Fixed Charge Rate		6,212	5,058		835		72		245	
16												
17												
18		Grand	CUSTOMER		DS-1		DS-2		DS-3		DS-4	
19		Total	TOTAL		LABOR	OTHER	LABOR	OTHER	LABOR	OTHER	LABOR	OTHER
20		EXPENSE										
21												
22	583.1/593	Overhead lines	809		228	485	29	62	1	2	0	1
23	583.2/584.2	Transformers	41		33	3	4	0	0	0	0	0
24	584.1/594	Underground lines	18		11	4	1	1	0	0	0	0
25	586/597	Meters	243		140	20	39	6	6	1	27	4
26	580/590	Supvr. & Eng.	62		37	13	6	2	1	0	2	1
27	581	Dispatch	4		0	3	0	1	0	0	0	0
28	588/598	Miscellaneous	128		35	61	8	12	1	1	4	5
29	589	Rents	11		0	8	0	2	0	0	0	1
30	901-905	Customer Accounts	2,826		1,313	897	260	131	144	36	35	9
31	907-916	Customer Service and Sales	<u>420</u>		<u>187</u>	<u>142</u>	<u>37</u>	<u>21</u>	<u>21</u>	<u>6</u>	<u>5</u>	<u>1</u>
32											0	0
33		Sub-total	4,561		1,985	1,636	386	237	173	47	74	22
34												
35												
36	920-935	A & G, Payroll Taxes, and Return	3,502		2,655		516		232		98	
37		Gen. & Int. Plant/(Dist.&Cust, A&G) Labor										
38												
39		Less "Other Revenues"			-279		-24		0		0	
40												
41		Customer Related Cost				11,055		1,950		525		439
42		(line 9, 26 & 29)										
43												
44		# Of Annual Bills		738,552		650,688		83,820		3,264		780
45												
46		Customer Charge (per month)				\$16.99		\$23.26		\$160.77		\$562.64